

CANADA AT WAR

A SUMMARY OF CANADA'S PART IN THE WAR

Revised to July 1st, 1941

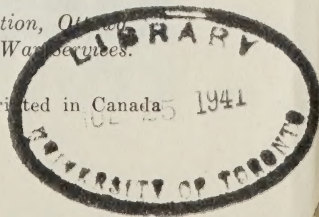
This material is the fourth in a series of monthly releases, and is intended to serve as source material for speakers and those who ask for up-to-date information about Canada's participation in the war. It will be revised monthly and will contain the most recent of available facts and figures.


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GENERAL SUMMARY

Canada went to war on September 10, 1939, in accordance with a free vote of a free parliament. The Dominion was completely at liberty to make war or to abstain from making war. Canada's prompt and uncompelled decision was given as soon after the outbreak as Parliament could be called together. Britain went to war on September 3, 1939. On September 7 the Canadian Parliament assembled and three days later Canada declared war on Germany. When Italy began hostilities on June 10, 1940, Canada at once declared war on her.

Although at the outbreak of war in September, 1939, the Dominion was a relatively weak military power, in the ensuing twenty-two months she has built a war machine, the actual and potential strength of which is very considerable. During the years 1936-39 action was taken to modernize and expand the Canadian armed forces and to prepare measures for the defence of Canadian territory. The 1939 estimates provided about \$64,500,000 for the three Services. This was by far the largest sum ever allocated in Canada for defence in time of peace. Nevertheless these pre-war steps were limited by a peace-time budget. Canada went to war with armed forces whose size was insignificant in comparison with those of European nations and with her industrial plant operating almost entirely on a peace-time basis.

Since the beginning of the war the Dominion has diverted more and more of her resources, both human and material, into her war effort. In 1941-42 Canada will spend between 35 per cent and 40 per cent of the national income for war. Approximately three hundred thousand Canadians are serving in the active armed forces of the Dominion abroad and at home. They have been enlisted on a voluntary basis for the duration and will go wherever required. The roll-call of the Canadian Navy, Army and Air Force, in terms of the population of the United States, is equivalent to an armed strength of well over three million men. This does not take into account the Canadian Reserve

Army for home defence. On the industrial front Canada's manufacturing capacity is now largely occupied with the production of war materials.

Canada is in full agreement with Great Britain on plans for the conduct of the war for the immediate future. The Canadian Government has assured the British Government that Canada has only one object—a full-out contribution with everything Canada has and as fast as she can give it. Canada is continually adding to the strength of her overseas forces, and is prepared to have them go wherever their services may count for most.

CANADA IN THE THEATRES OF WAR

Canada, as an active belligerent, has sent sailors, soldiers, airmen, and naval units to the British Isles and to other strategic parts of the world; 80,000 Canadian sailors, soldiers and airmen are now overseas.

Canada's sailors are manning Canadian warships which daily take part in the Battle of the Atlantic and in operations in British waters. Others patrol many parts of the seven seas. Since the outbreak of war, the Royal Canadian Navy has captured several enemy vessels and caused others to be scuttled. It has effected rescues and assisted in the evacuation of beleaguered troops. Atlantic shipping carrying a total of more than twenty-seven million tons has been convoyed by the Royal Canadian Navy, in co-operation with the Royal Navy. A large number of Canadians are serving with the Royal Navy.

An army corps of two divisions, comprising, with ancillary troops, about 70,000 men, has been in the British Isles for a considerable time. They guard vital sectors. Other Canadian soldiers are in Newfoundland, the British West Indies and Gibraltar. Until their recent removal to service elsewhere, Canadian troops for many months helped to garrison Iceland, where they played an important part in building the defences of that strategic island.

Canadian airmen and Canadian squadrons have, from the beginning, been taking part in the Battle of Britain. Canadian fighter pilots have shot down a large number of enemy planes, and others have engaged in bombing

and reconnaissance work. Thousands of Canadian airmen, trained in the Dominion under the British Commonwealth Air Training Plan, are already in Britain, and thousands of Canadian radio and ground technicians have for some time been assisting the R.A.F. in detecting night bombers.

More than 1,000 Canadian sailors, soldiers and airmen have so far been listed as dead or missing. Of these 660 were killed and 141 are missing. In addition a considerable number of Canadians serving with British forces, as distinct from Canadian units, have given their lives. Many Canadians have been decorated or mentioned in despatches.

This year Canada will send overseas two additional divisions—one an armoured division, the other an infantry division. A tank brigade and reinforcements for units already abroad will also be sent. Some of these forces are already in Britain, others are on their way. Contingents of airmen arrive regularly in the British Isles and the flow increases steadily in volume as the months go on. About 2,500 more radio technicians will go overseas this year. Canadian naval assistance continues to develop strength.

THE NAVY

The Royal Canadian Navy went into action the moment that Canada declared war. Since, in addition to the work it has done in British and other non-Canadian waters, it has successfully protected the Dominion's shores and ports.

The Navy has grown speedily. At the outbreak of war its strength was about 3,600 men and it had 13 ships of all kinds. To-day its mobilized strength is more than 20,000 men and it musters more than 200 vessels—including 13 destroyers, three armed merchant cruisers, a number of corvettes and minesweepers and a large fleet of smaller craft suitable for patrol and anti-submarine work. By March, 1942, the strength of the Royal Canadian Navy is expected to be about 27,000 men and more than 400 ships.

The Navy has listed 335 men killed, 21 missing, 35 who died and 63 wounded (June 24, 1941).

THE ARMY

In September, 1939, Canada had a Permanent Force of some 4,500 men and a Non-Permanent Active Militia of about 55,000. The Permanent Force is now known as the Canadian Army (Active) and the Non-Permanent Militia is now called the Canadian Army (Reserve). There are now approximately 220,000 men in the Active Army—all recruited on a voluntary basis to serve wherever required for the duration of the war. The Reserve Army enrolment is 170,000 men.

Of the 72,000 men to be added to the strength of the Active Army during the current year, about 32,000 are at present being recruited on a voluntary basis. In the next twelve months about 40,000 additional men will be made available for home defence duties after completing a period of four months' training on a non-voluntary basis. The exact total will depend on the number of men called up in each monthly quota. About 16,000 have so far reported. Each class to graduate monthly, beginning this month, will release for overseas duty soldiers of the Active Army at present serving in Canada.

Nearly half of Canada's estimated direct war expenditure in the present fiscal year will be devoted to Army needs. While first consideration has necessarily been given to the equipping of Canadian overseas forces and to sending material to Britain, the Canadian Army at home is steadily being fully equipped.

The Army has listed 56 killed, 84 missing, 214 who died and 150 wounded. (June 20, 1941).

THE AIR FORCE

The personnel of the Royal Canadian Air Force is to-day about 55,000 or twelve times as large as it was at the outbreak of war and its numbers are rapidly increasing.

The British Commonwealth Air Training Plan, first announced in December, 1939, has expanded very rapidly to keep pace with the urgent demands of the war. It is now turning out thousands of pilots, gunners, and observers at about twice the rate originally planned for this time. Under the Plan, 65 schools from coast to

coast are in operation and it is expected that by September of this year this number will total 83. The Plan now has 116 establishments of all kinds.

The estimated cost of the Air Training Plan, for a period of three years, is \$824,000,000, of which amount Canada will supply \$531,000,000. Canada provides 80 per cent of the students. About 1,500 of the pupils trained or in training in the R.C.A.F. are Americans, and about 600 American pilots are serving as instructors for the Air Training Plan.

In addition to despatching men overseas, the R.C.A.F. is a powerful factor in Canada-United States defence. Its planes are on patrol duty in the Dominion daily, and far out to sea on the Atlantic and Pacific coasts.

The British Commonwealth Air Training Plan will soon have a pool of partially-trained recruits. The Air Cadet League of Canada expects to enrol 25,000 youths by September for a grounding in air force elementary training.

The Air Force has listed 269 killed, 36 missing, 10 who died and 131 wounded. (June 25, 1941).

HOME DEFENCE AND SECURITY

Since the outbreak of war Canada has taken steps greatly to strengthen the defence of her coasts and other strategic areas. Both Canadian coasts are guarded by anti-submarine devices, naval and air patrols operating from coastal bases, coastal and anti-aircraft guns and large concentrations of troops. Over one hundred air fields have been built under the Air Training Plan, strategic air bases have been built in coastal areas, and Canada will spend \$20,000,000 this year on additional land and sea air bases of strategic importance, including a string of air fields designed to give military planes access to Alaska. Troops guard vital points throughout the country. The Veterans' Guard plays an important part in this work. In many areas local authorities have organized Civilian Defence and A.R.P. units. Blackout practices have been held in several cities. Under the Defence of Canada Regulations all possible precautions are taken against sabotage and fifth column activity. The Royal Canadian Mounted Police, under the direction of the Federal Department of Justice, are in charge of this work.

MUNITIONS AND SUPPLY

Building a War Industry

Practically every Canadian factory that can produce for war is now doing so directly or indirectly. Many new plants have been built and old ones expanded and provided with new equipment. Since the war began the Canadian and British Governments have underwritten capital advances of close to \$490,000,000 for this purpose. This sum alone approximates the capital invested in all industries situated in Montreal and Toronto, Canada's largest cities.

Construction

This industrial expansion, on which nearly \$400,000,000 has already been spent, has involved tremendous construction activity. In addition to expanding industry, the construction industry has undertaken a \$110,000,000 defence building program, under which several thousand buildings and more than 100 air fields have already been completed.

An idea of what construction companies in Canada have been and still are undertaking is evident from the fact that during the first five months of this year the value of construction contracts awarded was about twice as great as the value of those let in the first two months of 1940; and construction contracts in 1940 were about 85 per cent higher than in 1939.

Speed is also being developed in providing low-cost dwellings for war workers. Wartime Housing Limited (a Government-owned company) is carrying out a building program in Halifax and in ten crowded Ontario communities. This program is steadily being extended. The accommodation is to be temporary in character and will be rented to the occupants.

Production

In the first year of the war the provision of plant structures and of machinery constituted a serious problem towards a solution of which all concerned made a concentrated effort. Now that many of these difficulties have been overcome, Canadian industry has struck its stride and its record in war production has been impressive.

Shipbuilding, Shipping and Ship Repairs

Shipbuilding has increased tremendously in Canada. At the beginning of the war there were only 1,500 workers in Canadian shipyards. Now more than 20,000 workers are employed in 17 major and 45 smaller yards. To-day the shipbuilding program, apart from merchant shipbuilding, involves an expenditure of upwards of \$120,000,000. Some 235 ships have been ordered, not including small craft, and well over 100 have either been delivered or launched. They include corvettes, minesweepers, auxiliary cruisers and vessels converted to naval use. Twenty-four patrol boats and twelve special minesweepers have been ordered. The keels of two "Tribal" class destroyers are to be laid down in Halifax.

Deliveries also are being made regularly under the \$6,500,000 small-boat program, which is now over 50 per cent complete and includes the construction of hundreds of craft ranging from pulling boats to fast torpedo-boats.

More than 100 freighters of the 9,300-ton class also are to be made in Canada at a cost of \$200,000,000. Eighty of these will be in service by the end of 1942.

Canada is co-operating with the United States in a plan to release Great Lakes ships to take the place of coastal freighters needed for transatlantic service. The Canadian Shipping Board will determine how many of such vessels of Canadian registry can be spared. The Board is also investigating the possibility of releasing Canadian Great Lakes ships to assist the United States defence program.

Canadian ship-repair facilities are being stepped up to a maximum to assure a rapid turn-around for merchant shipping and to provide quick repairs for ships of war. New drydocks are being rushed to completion.

Manning pools to provide groups of experienced merchant seamen at short notice will shortly be established to facilitate merchant ship movements.

Aircraft

The Canadian aircraft industry was of small dimensions at the beginning of the war, but since that time it has built more than 1,500 aircraft and the present rate of production is about forty planes per week. Most of the primary trainers required by the British Commonwealth

Air Training Plan have been supplied and the industry is now turning more to the production of advanced trainers and service craft of the heavy bomber type. For example, Harvard trainers are now being turned out, 39 PBY flying boats were recently ordered and orders for several Martin B-26 medium bombers have been placed. At least 200 are to be ordered altogether. Engines for all planes produced in Canada are imported, most from the United States.

Automatic Weapons

The manufacture of automatic weapons in Canada is reaching gratifying proportions. One Canadian factory, which began making Bren guns before the war is now well ahead of schedule. This factory has the largest output of any automatic gun plant in the world. An \$8,000,000 plant to manufacture automatic guns for aeroplanes is to be built. It will be about one-third the size of the Bren gun plant.

Guns

Fourteen types of land and naval gun, including latest type of anti-aircraft and anti-tank guns, and ten types of mountings, are now being made or are soon to be made in Canada. Two-pounder guns are in substantial production and a consignment has already been shipped overseas. Mortars and 25-pounders are now being turned out. Anti-aircraft gun barrels are being produced in quantity. A Canadian plant has recently completed the first naval gun mounting ever made in the Dominion.

Chemicals and Explosives

Twelve of Canada's nineteen chemicals and explosives plants, one of which is equal in size to the largest similar plant in the British Empire, have begun to produce. This year alone the total production of explosives in Canada should exceed the entire Canadian output during the whole of the first Great War. Twelve types of chemicals and eight types of explosives are being turned out.

Small Arms Ammunition

Small arms ammunition factories are manufacturing tens of millions of rounds monthly and are capable of increasing production should it be necessary.

Shells

Shells and shell components are being produced in many factories well up to schedule. Nine types of gun ammunition are now being turned out at a rate of millions of rounds a year. Aerial bombs, rifle grenades, depth charges and mines are being turned out. One bomb factory, which has been producing for four months, is expected to manufacture 100,000 500-pound bombs a year.

Army Vehicles

Two hundred thousand army mechanical transport vehicles have been ordered in Canada and more than 120,000 of these have been delivered and are in service. They include universal carriers and a variety of truck and transport. The majority were exported to Britain and Empire countries, and are being used in the North African campaign.

Tanks

Canada has manufactured a heavy infantry tank and a 28-ton cruiser tank, both of which incorporate the latest improvements of Canadian engineers. They are said to be faster to build than any tank of the size yet produced on this continent or in Great Britain. By midsummer Canada will be manufacturing three tanks a day. The Canadian tank program calls for the production of 800 infantry and 1,000 cruiser tanks. The United States has asked for a sample Canadian cruiser tank, and it is likely that the United States will adopt the Canadian design.

Steel

Steel production has increased tremendously in Canada. The 1935-1938 average was 1,300,000 tons a year. It is now estimated that production is at the rate of about 2,250,000 tons a year. Output of alloy steel has increased five-fold since the outbreak.

Alloys

Production of alloys is ten or twelve times the pre-war level.

Minerals

Canada's mineral output in 1940 was 11.5 per cent greater than in 1939 and constituted a record. Production in the first four months of 1941 was 1.6 per cent greater than in the first four months of 1940. This mineral production provides supplies of nickel, zinc, copper, aluminum, lead, and other metals, most of which are vital to mechanized warfare.

Personal Equipment

Canada has produced a tremendous amount of personal equipment for her armed forces. This includes more than 100,000 separate and distinct kinds of articles. Orders to the value of about \$100,000,000 have been placed for the equipping and maintaining of Canadian forces.

Miscellaneous

A few of the items now being manufactured in Canada that were not made in this country before the war include optical and other instruments, field telephones, special wireless equipment, a variety of naval stores, compasses, chemicals for laying smoke screens, chain cable, anti-submarine equipment, minesweeping gear, anti-gas clothing, gas masks and parachutes.

AID TO BRITAIN

Munitions and Supplies

Since the outbreak of war Canada has sent supplies in increasing quantities to Britain. Canadian exports to Great Britain in the twelve months ending March 31, 1941, were 45 per cent greater than in the twelve months ending March 31, 1940, and during the succeeding twelve months it is expected that Canada will export goods to Britain to the value of about \$1,500,000,000, the equivalent of nearly \$23,000,000,000 worth of goods in terms of American population and income. Supplies sent to Britain to date include large quantities of foodstuffs, raw materials such as base metals and timber, and war equipment such as shells, gun barrels, universal carriers,

machine guns, two-pounder guns, explosives and chemicals, aeroplanes, corvettes, minesweepers, and mechanized transport.

Financial Aid

Canada has financed about three-quarters of Britain's deficit with Canada to date and will finance the bulk of her expenditures in Canada in the coming months. Apart from British goods sent to Canada, Britain has already needed a billion Canadian dollars to cover her purchases in Canada. About a quarter of this sum Britain paid Canada in gold. It has cost Canada in the United States more gold than this to enable her to fill her British orders. There have been no gold shipments from Britain to Canada since December, 1940.

Canada has told Britain not to worry about her shortage of Canadian money—that there will be time enough to reckon costs and credits when the war is over. Canada provides Great Britain with some of the Canadian money she needs by repatriating Canadian securities held in Britain. This amounts to paying debts before they fall due. The Dominion supplies the rest by accumulating Sterling balances—in effect, lending Great Britain money. All this credit, like the money raised to spend on Canada's own war effort, must be provided by the Canadian people. During the present fiscal year the total required for financial aid to Britain will be between \$800,000,000 and \$900,000,000.

Economic and Military Co-operation

Economic and military co-operation between Great Britain and Canada is extremely close. It is fostered through diplomatic and trade channels, by means of personal visits by officials and experts back and forth across the Atlantic, and through various boards established by both governments. Prices of foodstuffs, raw materials and war equipment purchased by Britain are kept at reasonable levels, and the Canadian Government, acting as purchasing agent for Britain, buys at the lowest possible prices and, of course, makes no profit on anything it buys in Canada on British account.

Canada pays for the equipment and upkeep of her forces overseas.

Canadian Civilians in Britain

Many Canadian civilians in Britain have been giving valuable assistance to Britain's cause. Canadian-born Lord Beaverbrook, until his recent appointment, was assisted in speeding aircraft production by three prominent Canadians, one of whom is Lord Bennett, formerly Right Hon. R. B. Bennett, Prime Minister of Canada. Other Canadians are serving in Canadian hospitals in England, in British medical centres, in canteens and in a variety of occupations. Canadian-born Sir Edward Peacock is at present undertaking an important financial mission in the United States on behalf of the British Government.

FINANCIAL UNDERTAKINGS

Direct War Spending

Canada's war spending has steadily increased. Between September 10, 1939, and March 31, 1940, the Dominion spent \$118,000,000 on her own war effort. In the 1940-41 fiscal year (April 1, 1940, to March 31, 1941), direct expenditure for war was about \$792,000,000. The amount spent in the first three months of 1941 was about five times as great as the amount spent in the first three months of 1940. The present rate of spending is well over \$1,000,000,000 a year and it is expected that direct war expenditure in the present fiscal year (March 31, 1941, to April 1, 1942) will be approximately \$1,450,000,000—nearly twice as much as the amount spent last year.

Indirect War Spending

In addition to this direct war expenditure, Canada provides Britain with Canadian dollars with which to make war purchases over and above those for which she is able to pay. By repatriating Canadian bonds held in Britain, Canada pays debts now which ordinarily would not fall due until some time in the future. By accumulating Sterling balances Canada, in effect, lends Great Britain money. Canada has so far supplied Britain with about \$750,000,000 in these ways. The net amount which Canada expects to provide for this purpose in the present fiscal year, which ends on April 1, 1942, amounts to between \$800,000,000 and \$900,000,000—the bulk of Britain's estimated deficit with Canada.

Total War Spending

Canada's total war spending in the present fiscal year will be considerably more than \$2,000,000,000. This is between 35 per cent and 40 per cent of the total estimated national income of \$5,950,000,000. When to war expenditures are added the ordinary expenses of all Canadian governments, federal, provincial and municipal, Canadians this year will have to give up about fifty cents of every dollar earned to foot the bill. In terms of the total estimated national income of the United States, Canada's total war spending would be equivalent to an expenditure by the United States for defence and for aid to Britain of about \$35,000,000,000 in a single year.

Financial Policy

The main lines of Canada's financial policy during the war have been, firstly, to pay as much as possible of the costs of war from taxation; secondly, to impose this increased taxation in accordance with ability to pay; thirdly, to avoid inflation; and, fourthly, to time financial action in such a way as to encourage a rapid expansion of production to the maximum.

Increase in Tax Revenues

The 1941-42 budget provides for the raising of about 76 per cent more money in taxes in the full fiscal year than was raised in this way in the 1940-41 fiscal year. Here are the figures for the last three fiscal years:

Total Revenue from Taxes

	Estimated 1940-41	Budgeted, 1941-42, for Full Fiscal Year
1939-40		
\$468,271,000	\$778,290,000	\$1,369,310,000

Increase in Direct Tax Revenues

Direct taxes of all kinds are expected in the present fiscal year to raise more than two and one-half times as much money as in the last fiscal year. The following are the figures for the last three fiscal years; they show the sharp increase in direct taxes since the pre-war period.

Total Revenue from Direct Taxes

	Estimated 1940-41	Budgeted, 1941-42, for Full Fiscal Year
1939-40		
\$136,910,000	\$274,690,000	\$732,000,000

In the 1940-41 fiscal year about five times as many Canadians as in the 1939-40 fiscal year paid income taxes of all kinds. The rates also were substantially higher. This year the rates are up again.

On personal income the new graduated rates will begin at 15 per cent on the first thousand dollars of net taxable income instead of 6 per cent or 8 per cent as at present. The National Defence Tax rates, as from July 1, have been increased from 2 per cent to 5 per cent and from 3 per cent to 7 per cent.

Other minor changes have been introduced to make the new burden as equitable as possible. The Federal Government, in order to spread the tax load as fairly as it can through all sections of the country, has offered to provide the Provinces with moneys equal to the amount of their personal and corporation income tax collections if they agree to vacate these tax fields for the duration of the war.

The net result of these changes for the taxpayer in the middle income brackets is that he will have to pay about twice as much income tax on his 1941 income as he paid on what he earned in 1940.

The following table gives an idea of the way in which Federal taxes on personal income (including the National Defence Tax on 1940 and 1941 income) have increased since the outbreak of war:

<i>Tax on Income Paid By a Married Canadian With No Dependents</i>			
Income \$	Tax on 1939 Income \$	Tax on 1940 Income \$	Tax on 1941 Income \$
1,500.....	0	30	75
3,000.....	36	195	400
5,000.....	144	555	1,000
10,000.....	781	2,070	3,080
50,000.....	14,351	21,390	26,965
100,000.....	39,299	51,300	61,875

Additional increases in direct taxes are provided in the 1941-42 budget. A greatly increased gift tax is to be introduced, and a Dominion succession duty is to be levied.

Tax increases affect businesses as well as individuals. The minimum rate of corporation tax has been advanced to 40 per cent. This involves changes in the administration of the excess profits tax, which was imposed at the outbreak of war.

Increases in Indirect Tax Revenue

Indirect taxes of all kinds are expected to raise considerably more money in the 1941-42 fiscal year than they provided in 1940-41. Below are the figures for the last three fiscal years. They show the steady increase in indirect taxes since the pre-war period.

Total Revenue From Indirect Taxes

1939-40	1940-41	Budgeted, 1941-42, for Full Fiscal Year
\$331,361,000	\$503,600,000	\$637,310,000

New indirect taxes and increases in existing indirect taxes now cut into the income of Canadians in all walks of life. New taxes include a tax of three cents a gallon on gasoline, an excise tax of 10 per cent on travel fares and an excise tax of 20 per cent on the receipts of all places of public entertainment where an admission fee is charged—movie houses, theatres, concert halls, racetracks, sports arenas, etc. Racetrack bets are also taxed.

Increases in existing taxes include a rise in the basic rate on automobiles from 20 per cent to 25 per cent, and increases in taxes on sugar, beer, wine, carbonic acid gas, soft drinks, cigarette tubes, cosmetics and toilet preparations and long-distance telephone calls.

Indirect taxes imposed last year and continued this year include levies on liquor, tobacco, matches, radios, cameras, phonographs, automobiles, and other durable consumers' goods. Customs duties on non-essential imports have been raised since the outbreak of war. Sales tax revenue has increased since the outbreak of war, and the recent budget removed the exemption for the building trades.

It has been pointed out in connection with the gasoline tax that the United States Treasury is proposing a Federal tax on gasoline of 2½ cents a gallon. When the difference between the Canadian and American gallons is considered, this proposed U.S. tax would be equivalent to the new Canadian levy on gasoline.

War Loans and Savings

Since the outbreak of war the Canadian Government has borrowed about \$1,380,000,000 from the public and from domestic financial institutions other than banks. This money has been raised by the floating of three war loans

and by the issue of war savings and non-interest bearing certificates to the public. The war loans have provided the Government with more than \$1,200,000,000 in new money and about \$171,000,000 in conversions. All three war loans have been oversubscribed. The recent 1941 Victory Loan, nominally for \$600,000,000 raised \$710,958,950 in cash subscriptions, according to latest available returns. This is more than the amount invested in the 1918 Victory Loan, Canada's largest loan during the last war. Including conversions, the total raised was \$806,834,600. The Government will allot the whole of the oversubscription. About one in thirteen Canadians subscribed to the Loan. To June 25, 1941, applications for war savings certificates amounted to \$69,400,000, and to June 26, \$6,854,340 had been invested in non-interest bearing certificates.

The Government expects in the present fiscal year to receive about \$200,000,000 in return for war savings certificates and in other forms of citizens' savings.

The amount of bank borrowing has been limited to safe and reasonable proportions.

Balancing the Budget

The total amount which the Canadian government will have to raise for war and ordinary purposes in the present fiscal year is estimated to be about \$2,650,000,000. Of this amount taxes and non-tax revenue will provide about \$1,400,000,000 in the actual fiscal year ending March 31, 1942.

However, in estimating the extent to which the government is paying for the war "as it goes," it should be remembered that money lent to Britain now is covered by the accumulation of Sterling balances, and repatriation, while it imposes a present burden, is not a drain on capital. Money loaned to the Canadian government by the Canadian people just about "covers" the amount needed to finance Great Britain's deficit with Canada during the present fiscal year.

The 1941-42 budget thus provides for the payment of between 73 per cent and 79 per cent of total federal expenditures (war and non-war) out of revenue. The excess of expenditures over revenue is estimated at between \$365,000,000 and \$515,000,000.

Effecting War Economies

The War Expenditures Committee of the House of Commons, composed of members from both the Government and the Opposition sides, is charged with the duty of examining war expenditures. It has already recommended several economy measures, some of which have been carried out. The Government has the others under consideration.

THE WAR AND THE CANADIAN ECONOMY

Economic Expansion

Canada's wartime financial undertakings are the necessary accompaniment of a war program which has caused a marked expansion in the economy of the nation. Industrial output has enormously increased and has still to reach its peak; business activity is up and is still rising; construction has reached record proportions and there is still much to do; transportation facilities are working diligently to bear the traffic of war; surplus labour has to a large extent been absorbed; the national income has substantially increased, over half the increase being in salaries and wages.

But This Is A War Boom

This expansion does not mean that individuals, businesses or the nation as a whole are growing rich because of the war. On the contrary, with governments taking nearly three times as much money from the country as in peace time, every one—from the Federal Government down—is feeling the need to retrench in order to help pay for the war. Economic expansion is the result of the insatiable demands of war.

The Biggest Big Business in Canada's History

The Federal Government with a total war outlay for the present fiscal year of well over \$2,000,000,000, is the biggest big business in Canada's history. It is the organization charged with the conduct of the war, the one great undertaking which now overshadows all other enterprises in Canada. Nearly fifty cents out of every dollar earned is required to finance its undertakings. Firms of many kinds from one end of the country to the other are under

contract to supply it; the Canadian and British governments have underwritten capital advances of more than \$490,000,000 for industrial plant construction, expansion and equipment; the Canadian Government owns and operates twelve wartime companies. To-day, to an extent undreamed of in Canada's history, Canadians, whether they are humble wage-earners or the directors of important businesses, are indirectly working for the Government. They are doing this because to work for the Government is to work to help Canada play her part in winning the war.

Wartime Controls

While the war has enormously enlarged the importance of Government enterprise, it has by no means destroyed the importance of individual business undertakings. Indeed, the energy and efficiency of such undertakings have been a major contributing factor to the success which Canada's war program has enjoyed to date.

Nevertheless, the Government has assumed a measure of control over the Canadian economy in order to get the most out of it and to protect it from the harmful effects of world-wide unrest. Under the War Measures Act, the Munitions and Supply Act and other wartime statutes, the Government has power to regiment the physical and human resources of the nation in any way necessary to the security of the state. Actually, these wide powers have been invoked only where voluntary co-operation has proved faulty or has been necessarily too unco-ordinated to prove effective. Generally speaking, in all phases of its war program, the Government has sought wherever practicable to secure the voluntary co-operation of the persons and interests involved.

Until recently, production for civilian purposes has in most cases been able to expand very substantially along with the expansion in war production. This has not interfered with the war effort, because before the war Canada had large reserves of unemployed or under-employed labour and capacity. Certain formal restrictive steps have had to be taken, but until recently financial measures have been the main ones used to speed war production and hold civilian production in check. These actions have been timed to keep in step with the war program. Generally speaking, in the economic sphere, government policy and

public co-operation have worked together in various measures designed to ameliorate wartime stresses and to provide a maximum war contribution.

Now, with technical problems largely solved, more restrictions on civilian activity appear likely. More selective priorities, allocation of civilian supply and price fixing, may be required to give the physical capacities of the Dominion full opportunity and to distribute costs and burdens fairly.

Foreign Exchange Control

A supply of foreign exchange, particularly American dollars, is vital to Canada's war program. To ensure this supply and to perform other necessary functions, the Foreign Exchange Control Board was given the necessary powers at the beginning of the war.

Canada normally sells the Sterling resulting from her Empire trade in order to get American dollars to cover her trade deficit with the United States. But the war has made this arrangement impractical. For Britain has needed most of her gold and American dollars for her own war purchases in the United States and so has not been able to continue to convert Canadian Sterling credits into U.S. dollars. Moreover, since the beginning of the war, Britain has been able to settle only one-quarter of her one billion dollar deficit with Canada by transfer of gold, and since December of last year no gold has been transferred from Britain to Canada.

At the same time, as was to be expected, Canada's trade deficit with the United States has greatly increased. In 1939, it was \$117,000,000; in 1940 it jumped to \$301,000,000; and in the present fiscal year, under normal conditions it would reach an estimated \$478,000,000.

Because of these increased purchases Canada, since the beginning of the war, has been faced with a widening differential between the amount of U.S. dollars she needs and the supply she is able to command. For, under the terms of the U.S. Neutrality Act, Canada's war purchases in the United States must be paid for in cash in U.S. dollars.

Foreseeing this situation, the Foreign Exchange Control Board did the only thing possible. It took steps to conserve the American dollars in Canadian possession and to increase that supply where possible. Canada has tried to avoid

the accumulation of unliquidated obligations during the war which would only make it more difficult to do away with the control after the war. Instead, the Dominion has made every effort to meet her exchange shortages by making her own residents do without things which are not essential. About a year ago Canada placed a special war-time tax on all imports except those paid for in Sterling. This was intended to discourage the purchase of non-essential imports. In July of 1940, Canada ceased to permit the sale of foreign exchange to Canadians for pleasure travel abroad. The Government did not like to do this, but since a very substantial saving of exchange could be effected in this way, it felt that the step was necessary. Finally, about the end of 1940, Canada took the more drastic step of prohibiting the importation of a long list of non-essential consumer goods. For certain other major items gradual reductions in Canada's imports were arranged.

The exchange provided in these ways, combined with that accruing from other miscellaneous sources, has provided Canada with a pool out of which foreign exchange is produced to pay for imports, to service Canada's debt payable in foreign currencies and to cover other necessary disbursements of foreign exchange. In order that Canada may continue to purchase goods in the United States on a scale commensurate with the demands of her war program, it has been necessary to continue the methods for conserving foreign exchange outlined above, even though the Hyde Park Declaration has established a principle which, it is expected, will result in an easing of Canada's foreign exchange position.

The Foreign Exchange Control Board has also exerted wartime controls, the effect of which has been to stabilize the Canadian dollar, a condition which is vital to Canadian trade, and to prevent disorderly marketing of securities or an outflow of capital from Canada—developments which threaten a belligerent nation, particularly when the fortunes of war go against her.

The Necessaries of Life

At the outbreak of war the Government took immediate steps to assure an adequate and continuous distribution of the necessaries of life at reasonable prices, to eliminate hoarding and profiteering, and to curb those who otherwise might turn national needs into personal profits.

On the day that Britain declared war the Wartime Prices and Trade Board was appointed. The Board is endowed with wide powers permitting, where necessary, an adequate control of the production and distribution of the necessities of life. The chief function of the Board is to protect the consumer from exploitation.

The Board has investigated the distribution and sale of all important commodities, and with the help of technical advisers and administrators has endeavoured to forestall shortages wherever and whenever possible. In certain cases it has been found necessary to fix prices for a period of time, but the only maximum price now in operation is that on rents in crowded centres. In most cases, the Board has been able to prevent unjustified price increases by creating an enlightened and effective public opinion, and by taking all possible steps to ensure ample supplies.

The difficulties faced by the Board have been many. Depreciation of the Canadian dollar, disorganized shipping, tremendous increases in ocean freight rates and war insurance costs, and substantial increases in taxes on many commodities, have all affected the prices of certain essential products. Nevertheless, by careful planning and co-operation it has been possible to maintain an adequate and uninterrupted flow of supplies on to the Canadian market; and the cost of living since the outbreak of war has risen only about 8·2 per cent, an increase which is spread fairly evenly through all sections of the country.

The Stuff of War

To make the weapons of modern war, an adequate supply of machine tools and essential raw materials is vitally important. To take all possible steps to ensure such a supply is the function of the Controllers of wartime industry. Machine tools, small tools, abrasives, electric power, oil, coal, timber, steel, iron, aluminium, nickel, zinc, tin, copper, chrome, tungsten, manganese, lead, mica, asbestos, and other metals—these are the tools and raw materials Canada most urgently needs to make weapons and engines of war for her armed forces and for Britain.

Many of these things are made or produced in Canada; others are imported in greater or lesser degree. In some cases the demand is very heavy and taxes the ingenuity of those charged with supplying them. In other cases, the

situation is "easy." But in almost every case careful measures have had to be taken to ensure a continuing supply.

These measures are mainly three. First, increasing domestic supply, and foreign supply where possible; second, curbing the use of such materials for non-war purposes; third, rigidly licensing the export of such materials. The Controllers, with the assistance and co-operation of industry and of business, have succeeded in a variety of cases in achieving these ends; and their unremitting efforts are continuing.

The production of machine tools increased markedly in 1940 and recent investigations and remedial measures have resulted in a distinct betterment in production and efficiency. The production of metals in Canada in 1940 reached an all-time high; and efforts are constantly being made to expand production further. Mineral production in the first five months of this year was 1.6 per cent greater than in the corresponding period of 1940.

A striking example of the curbing of non-war use of essential materials is the voluntary reduction in non-war consumption of aluminum from 1,000 tons a month to 25 tons a month. Various orders have gone out from the Controllers' offices from time to time, the effect of which has been to reduce the use of machine tools for non-war purposes or to lessen the consumption of essential raw materials. New models for automobiles, radios, refrigerators, etc., are "taboo." Electric power has been conserved by daylight saving. A definite price basis has been established for lumber and mill-work. Manufacture of new automobiles for civilian use has been curbed by a series of measures. Steps have been taken to conserve valuable scrap metals. Steel and other metals and materials are subject to priorities which are administered by the Priorities Branch of the Department of Munitions and Supply. Up to the present priorities officials have avoided formal priority classifications wherever possible. Direct negotiations by producers have been given every encouragement. Pig iron orders must now be approved by the Steel Controller. The recent budget limits the erection of plants, the installation of equipment and the construction or repair of buildings to projects licensed by the Priorities Branch of the Department of Munitions and Supply. The aim is to limit the use of labour, material and foreign exchange

to the provision of war and essential services. To deal with a threatening oil situation, caused by the diversion of tankers to Britain, the Oil Controller has recently issued an order prohibiting the installation of oil-burning equipment for non-essential purposes.

Co-operation with the United Kingdom and with the United States in this sphere of the war program is very close, and every effort is being made to co-ordinate the efforts of the three countries as effectively as possible.

Labour and the War

Labour is also vitally important in the production of the weapons of war.

The Government has taken steps to provide a maximum labour supply. About 350,000 additional men have been absorbed into industrial employment since the outbreak of war. Thousands more are being trained in technical and plant schools throughout the country. As many as 100,000 may be trained in this way in the course of the year. Of these, about 80,000 will be available for war industries.

Labour supply problems are receiving close attention from a number of agencies—the National Labour Supply Council, the Labour Co-ordination Committee and the Wartime Bureau of Technical Personnel. The latter is encouraging the transfer of experts from non-war to war industry, and the training of men for war jobs in the shops of established industry. Two of Canada's leading industries are already co-operating in this latter work.

The Government has taken several steps since the outbreak of war to encourage good relations between management and labour.

In November, 1939, the provisions of the Industrial Disputes Investigation Act were extended to cover disputes between employers and employees engaged in war work. This means, among other things, that a strike in industries coming under the terms of the Industrial Disputes Investigation Act is illegal if called before a conciliation board brings in its finding. In June, 1940, an Order in Council was passed enunciating certain principles for the avoidance of labour unrest during the war and a National Labour Supply Council, equally representative of management and workers, was established. In December, 1940, a wartime

wage policy, taking the 1926-29 level as the norm and suggesting that any increases be in the form of wartime cost-of-living bonuses, was adopted. In June, 1941, an amendment to the Industrial Disputes Investigation Act was passed. Designed to ensure that conciliation board findings will be completely impartial, it prohibits the nomination to conciliation boards of persons who have pecuniary interests in one side or the other in a dispute or who have within six months acted as lawyer or paid agent for either side in the dispute. In June also the Government set up an Industrial Disputes Inquiry Commission to deal with labour trouble in its incipient stages and to determine whether or not a conciliation board is necessary. The Government has also recently raised the minimum wages payable by manufacturers doing war work.

The Government in recent months has been taking strong action to prevent strikes interfering with war production. In April, 1941, a strike in a Hamilton steel plant was firmly dealt with. A dispute between the management and the workers was referred to a conciliation board, as is required by law. However, the management refused to accept the majority finding of the board and the workers went on strike. Without delay the Government, invoking the powers it possesses, sent in a controller to take over management of the plant. The next morning the plant was producing and the workers were back at their jobs.

In June, 1941, equally strong action was taken against strikers who were impeding war production. Under authority of the Industrial Disputes Investigation Act, summonses were issued on June 12 against fifteen employees of the Canadian General Electric Company in Toronto. They were charged with illegally remaining on strike after the majority of their fellow-workers had returned to their jobs on orders of the Government. The strike was illegal because it occurred before the dispute had been referred to a conciliation board.

In June also an Order in Council was passed bringing coal miners under defence regulations. It provides heavy penalties for miners who impede output.

THE UNITED STATES AND THE CANADIAN WAR EFFORT

Canadian Purchases in the United States Increased Because of War

The United States has been a source of strength to Canada in the prosecution of the war. Canada buys many essential war materials in the United States and since the outbreak of hostilities has bought them in increasing quantities. In spite of a reduction in the amount of "non-essential" commodities coming to Canada from the United States, Canada's imports from that country have increased greatly since the outbreak of war. In 1939 they were valued at \$497,000,000; in 1940 they soared to \$744,000,000; in the present fiscal year they are expected to reach \$953,000,000, of which \$428,000,000 will be for war purchases. At the same time Canada's exports to the United States this fiscal year have been estimated to run to \$475,000,000—which would leave Canada with a trade deficit with the United States of about \$478,000,000.

The Hyde Park Declaration

The Hyde Park Declaration has established a principle which will assist Canada to maintain and increase her war purchases in the United States. As a result of the agreement, it is expected that Canada will be able to sell to the United States additional defence materials and some articles of war to the value of between \$200,000,000 and \$300,000,000. In addition, the United States is expected to lend-lease to Great Britain materials and parts needed by Canada as components in her production for Britain. In the present fiscal year such purchases are expected to run to over \$200,000,000. Canada, herself, is not taking advantage of the Lend-Lease Act, but is paying cash in American dollars for everything which she purchases in the United States.

Canada Must Still Conserve Foreign Exchange

According to Finance Minister J. L. Ilsley, the Hyde Park Declaration, though a magnificent contribution to the common struggle in which Canada and the United States are engaged, does not remove all need for the conservation

of foreign exchange. The most reasonable estimate of the magnitude of the Hyde Park Declaration's effect on Canada's supply of American dollars still leaves a considerable deficit in Canada's balance of payments with the United States.

Because of this situation the Canadian Government has reluctantly decided not to abandon the prohibition on travel in the United States by Canadians for other than business, health or educational reasons. As heretofore, of course, any Canadian can visit American relatives or friends who provide the United States dollars for the purpose.

Further Significance of Hyde Park Declaration

The Hyde Park Declaration has a significance over and beyond its financial importance to Canada. The net result of the Declaration, it is expected, will be that the United States and Canada, each concentrating on the materials of war which it can produce best and most quickly, will become one strong team, working and producing according to a carefully planned program which will ensure the most rapid possible supply of war materials to Britain and other embattled democracies and the most efficient provision of defence articles for North America.

War equipment which Canada is able to export to the United States under the terms of the Hyde Park Declaration includes certain types of small arms, some guns and ammunition, certain explosives and chemicals, certain armed fighting vehicles, corvettes and minesweepers, aluminum and certain other metals and materials. There are in addition certain types of clothing and textiles, certain leather, rubber and timber products and certain secret devices in which Canada could probably make an important contribution if these were desired.

Discussions on Economic Co-operation by Canadian and United States Officials

The Material Co-ordination Committee of the United States and Canada has been appointed and has met. It consists of two United States and two Canadian representatives, all government officials and experts in their fields, whose task is to collect and exchange information

on raw material supplies of the United States and Canada, in order that all sources may be made known to those responsible for war production.

On June 17 it was announced that Canada and the United States have established joint committees of inquiry to "explore the possibility of a greater degree of economic co-operation" between the two countries. The committees, which are to be known as the Joint Economic Committees, "have been instructed to study and to report to their respective Governments on the possibilities of: (1) affecting a more economic, more efficient and more co-ordinated utilization of the combined resources of the two countries in the production of defence requirements (to the extent that this is not now being done); and (2) reducing the probable post-war economic dislocation consequent upon the changes which the economy in each country is presently undergoing."

The close attention which the problem of integration is receiving from these committees and from other officials, augurs well for the success of a continental supply policy.

The United States and Canadian Home Defence

The United States has in other ways been of assistance to Canada's war effort. Since the Ogdensburg Agreement of August, 1940, the Permanent Joint Board on Defence has been in operation and it has now worked out its plans for the defence of North American coasts by Canada and the United States against any possible attack.

Americans in the Canadian Armed Forces

An even more direct and striking American contribution is the arrival in Canada of American volunteers for the Canadian armed forces. About 1,500 Americans have enlisted in the R.C.A.F. and 600 American fliers are acting as instructors for the Air Training Plan. About 7,000 Americans are serving with the Canadian Army.

VOLUNTARY CONTRIBUTIONS AND SERVICES

Contributions

Canadians have responded enthusiastically to the many calls for voluntary contributions which have been made since the outbreak of war. More than 1,700 organizations are engaged in voluntary war work, and their efforts have been co-ordinated under the supervision of the War Charities Administrator. Many millions of dollars have been contributed to these organizations. The Canadian War Services Fund, in which are combined six major charities devoted to the welfare of the fighting forces, recently raised more than \$6,000,000. The Canadian Red Cross has received contributions amounting to many millions since the beginning of the war. Other organizations include funds to assist the victims of enemy bombing, and to aid refugees, evacuees and specially deserving groups such as British fire-fighters. There are funds to purchase war planes, ambulances and mobile kitchens.

Thousands of Canadians and a large number of Americans have sent nearly \$2,000,000 to the Canadian Government as "free gifts" to help the war effort.

Services

Thousands of Canadians are engaged in voluntary war work. Women in all parts of the country, in homes, clubs and churches, devote themselves each week to providing clothing and other material to be sent abroad for the comfort of civilians and combatants in the war zone. Thousands of younger women are serving in canteens, while large numbers have taken training which they hope may fit them for special war services. Citizens in many communities are learning the rudiments of A.R.P. Clubs and organizations of every kind from coast to coast have undertaken a variety of wartime services.

In many other ways thousands of Canadians are unobtrusively devoting their time and energy to the prosecution of the war. Over 100 "dollar-a-year" men have been loaned to the Government. They now occupy key positions. The head of one of the world's greatest chemical industries,

the president of one of Canada's leading banks, and the chief of an outstanding meat-packing firm, have all left their businesses to devote themselves to facilitating the flow of supplies to Britain from this continent. Other industrial, commercial and financial men are helping in similar ways. For example, the Canadian Manufacturers' Association and the Canadian Chamber of Commerce have undertaken to assist the Department of Munitions and Supply. Scientists and technical experts in the National Research Council and in universities have placed their skill at the disposal of the country. An outstanding example in this connection was Sir Frederick Banting, who lost his life in a plane crash in Newfoundland when on his way to Britain on a mission of high military and national importance. More than 10 per cent of the registered medical doctors in Canada are now on active service. Hundreds of qualified nurses are serving with the forces, and a large number have already gone overseas. Newspapermen, professors, and hosts of others, both prominent and obscure, are coming to the aid of their country in the ways best suited to their talents and connections.

WAR ADMINISTRATION

Canada's war policies are instituted by the War Committee of the Cabinet, which consists of the Prime Minister, the three Defence Ministers, the Minister of Munitions and Supply, the Minister of Finance, the Minister of War Services and three senior Ministers. Like the Cabinet itself, it is responsible directly to Parliament, and it has full powers to make decisions and carry them into effect.

The War Committee co-ordinates all major branches of the Canadian war effort—armed services, munitions and supply, finance, labour, national war services and external affairs. Through the Ministers who meet in the Committee all questions of policy can thus be worked out in relation to the whole pattern of war policy.

The complexities of war administration are dealt with by a great many special organizations. The Department of Munitions and Supply, a special wartime department, is in charge of the production of equipment and armaments and the provision of raw material supplies. It also acts as purchasing agent for Britain in Canada. The Wartime

Industries Control Board and the Priorities Branch of the Department of Munitions and Supply undertake the regulation of supply and production where necessary in the interests of the war effort. The aim of the Wartime Prices and Trade Board is to see that adequate supplies of the necessities of life are maintained at reasonable prices. The Foreign Exchange Control Board regulates the movements of foreign exchange in order that Canada may have funds to make purchases abroad. The Canadian members of the Joint Economic Committees of the United States and Canada are undertaking to inform the Canadian Government as to how the Dominion's resources may best be co-ordinated with those of the United States for defence production. The Bacon Board, the Dairy Products Board and the Special Products Board facilitate the despatch of Canadian foodstuffs to Britain.

These are but a few of some forty principal war organizations which administer Canada's war effort. The activities of these organizations, of the defence departments and of other smaller bodies set up since the beginning of the war, have drawn many thousands of office workers to the Canadian capital.

CANADA PAYS CASH FOR AMERICAN SUPPLIES



Canada is not taking advantage of the Lend-Lease Act. She pays "cash on the barrel-head" for everything which she buys in the United States on her own account. The Dominion has bought increasingly large amounts of war supplies in the United States. In 1939 Canada's imports from the United States were valued at \$497,000,000. In 1940 they soared to \$744,000,000. In the present fiscal year (April 1, 1941, to March 31, 1942) they are expected to reach \$953,000,000. Of this amount at least \$428,000,000 will be spent on war supplies.

WHAT CANADA DOES FOR GREAT BRITAIN



Apart from British goods sent to Canada, Britain has needed a billion dollars to cover her purchases in Canada. About a quarter of this sum Britain paid in gold to Canada. But Canada has had to send more gold than this to the United States in order to buy materials needed to fill orders placed with Canada by Great Britain. The rest of the Canadian dollars Britain needed in Canada, the Dominion herself has supplied. During the present fiscal year (April 1, 1941, to March 31, 1942), Canada will export goods and war equipment to Britain to the value of \$1,500,000,000—\$23,000,000,000 in terms of American population and income. Canada will provide Britain with the bulk of this money. Canada, it is clear, is not demanding “cash on the barrel-head” for her aid to Britain. Furthermore, Canada is making a direct contribution to the winning of the war by equipping her armed forces and placing them at the side of those who fight for freedom, wherever they are needed, without cost to anyone but the Canadian people.

